Affordable Housing Incentive Programs

Prepared for:
Growth Management Planning Council
King County, WA

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Ms. Elsie Crossman
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Office of Strategic Planning
600 4th Street, Room 300
Seattle, WA 98104-1826

Dear Elsie:

We are pleased to submit the enclosed Affordable Housing Incentive Programs report. We have enjoyed working with you and Council members on this and our prior report regarding community acceptance of housing within King County. We hope these reports assist the GMPC in implementing its Regional Housing Project.

Sincerely,

Janet Smith-Heimer
Managing Principal

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Senior Associate

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Executive Summary

Study Purpose and Approach

This report profiles and analyzes the economic implications of voluntary housing incentive programs which can be implemented by local jurisdictions to encourage new affordable housing development. These include primarily local government programs which provide density bonuses in exchange for incorporating affordable units within market rate housing projects. This report also assesses the economic implications of other incentives, such as reductions in required parking, which can further be used in certain markets to encourage private developers to produce affordable housing.

Program Examples

This report profiles several incentive programs that utilize a combination of incorporating affordable units combined with a market rate density bonus into a new development project. Examples profiled include a mandatory program in Montgomery County, MD; a voluntary program in Pleasanton, CA; and voluntary programs throughout King County, WA. These examples illustrate the range of specific approaches that local governments have used to encourage the production of affordable housing by using incentives designed to appeal to private, for-profit developers. These programs tend to work, and to produce affordable units, when market and economic conditions are aligned to create a strong demand for market rate housing (or, in the case of downtown Seattle, market rate commercial space). Another key ingredient for success is the appropriate mix of affordable units coupled with a density bonus, so that the net loss to a developer of incorporating an affordable unit can be almost or completely offset by the profit margin on each additional market rate unit allowed through the density bonus.

Economic Analysis of Incentive Programs

To analyze the impacts of density bonus/voluntary affordable housing incorporation into a market rate project, a series of "baseline" pro formas, along with variations in assumptions, were formulated. The results of this first step are included as Appendix B to this report. Baseline scenarios were developed for prototypical projects in Seattle, East County, and South County. For each location, both a rental project and for-sale project that reflect local land use patterns and market conditions were modeled. For East County, an additional for-sale project was modeled to reflect developer input regarding a lower-density townhouse product that has been gaining in popularity and meets developer profit needs.

Next, additional pro formas were developed to test the implications of a voluntary affordable housing component coupled with a density bonus, allowing for an offset from the potential financial loss of including affordable units by including additional market rate units to generate additional profit. The analysis incorporates two levels of an affordable

component – one version with five percent of baseline units at affordable rents/sale prices, and one version with 10 percent affordable units; these units would be rented or sold at prices affordable to households at various low income levels as defined by federal standards. Appendix B includes one example of this pro forma for each subregion for each tenure assumption (rental and for-sale) with a 10 percent affordable unit mix. Various density bonuses are also analyzed to determine if the resulting financial return from the combination of affordable units and increased profit from additional market rate units creates a feasible project. The density bonuses analyzed range from 10 to 25 percent of the baseline number of units. The results of this analysis are also shown in Appendix B.

To determine project feasibility under various combinations of Area Median Income (AMI) and density bonus, the analysis assumes that a profit margin (on total development costs) achieved through the baseline scenario would need to be maintained after incorporation of affordable units in order to encourage voluntary participation in a program of this type.

Summary of Findings

The following charts summarize the findings of the economic analysis conducted for this report, with the shaded areas indicating feasible combinations of AMI levels for the affordable units, percent of units included as affordable, and market rate density bonuses that, in combination, can support feasible projects. Boxes with dotted lines indicate cases where feasible combinations of AMI levels, affordable units, and market rate density bonuses are close to baseline profits, suggesting that with refined project-specific assumptions, these combinations may also prove feasible.

Summary of Incorporation of Affordable Units & Density Bonuses - Rental Projects

SEATTLE : Baseline Profit 14.0% of Development Costs (a)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI	**Maximum Income**	**Max. Rent**	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	12.4%	13.2%	14.0%	14.7%	9.1%	10.1%	11.0%	11.8%
Up to 80 percent	$47,376	$1,184	13.6%	14.4%	15.1%	15.8%	11.5%	12.4%	13.2%	14.0%
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

EAST COUNTY : Baseline Profit 9.1% of Development Costs (a)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI			*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	8.0%	9.0%	9.9%	10.8%	4.9%	6.0%	7.1%	8.0%
Up to 80 percent	$47,376	$1,184	9.2%	10.2%	11.0%	11.9%	7.3%	8.3%	9.3%	10.2%
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

SOUTH COUNTY : Baseline Profit Negative (b)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI			*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	NA	NA	NA	NA	NA	NA	NA	NA
Up to 80 percent	$47,376	$1,184	NA	NA	NA	NA	NA	NA	NA	NA
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

NOTES:

a) 120% Area Median Income exceeds assumed market rate rent for both Seattle and East County.

b) South County market rate rental is not feasibile; therefore, incorporating affordable units & density bonuses is not feasible. Note: market rate rent for South County (assumed $1,000 per unit) is below 80% AMI.

Summary of Affordable Units & Density Bonuses - For-Sale Projects

SEATTLE: 16.9% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	11.7%	12.5%	13.2%	13.9%	6.5%	7.5%	8.4%	9.2%
Up to 80%	$124,000	13.9%	14.6%	15.2%	15.8%	8.7%	9.6%	10.4%	11.1%
Up to 120%	$195,000	16.7%	17.3%	17.8%	18.3%	11.5%	12.3%	13.0%	13.7%

EAST COUNTY : Core - 12.3% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	11.2%	12.1%	12.8%	13.5%	6.1%	7.1%	8.0%	8.9%
Up to 80%	$124,000	13.5%	14.3%	14.9%	15.6%	8.4%	9.3%	10.2%	10.9%
Up to 120%	$195,000	16.6%	17.2%	17.8%	18.3%	11.4%	12.2%	13.0%	13.7%

EAST COUNTY: Townhouse - 10.6% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	6.9%	7.1%	7.2%	7.3%	3.2%	3.5%	3.8%	4.0%
Up to 80%	$124,000	7.9%	8.0%	8.1%	8.2%	5.1%	5.4%	5.6%	5.8%
Up to 120%	$195,000	9.2%	9.2%	9.3%	9.3%	7.7%	7.8%	7.9%	8.1%

SOUTH COUNTY: 9.6% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	9.3%	9.6%	9.9%	10.2%	4.3%	4.8%	5.3%	5.7%
Up to 80%	$124,000	12.7%	12.9%	13.1%	13.2%	7.7%	8.1%	8.5%	8.8%
Up to 120%	$195,000	NA	NA	NA	NA	NA	NA	NA	NA

As shown, the approach of incorporating affordable units on a voluntary basis in exchange for a density bonus, allowing additional market rate units to offset the cost to developers, is a workable approach in many parts of King County.

Rental Project Findings

For Seattle rental projects in "Urban Village" zones, combinations serving 50 percent AMI households, incorporating five percent affordable units, and providing market rate density bonuses of 20 percent or more, appear to be feasible. A density bonus of 15 percent may also be feasible for specific projects with slightly lower development costs than those assumed in the analysis. At higher AMI levels, a five percent affordable unit component appears workable if market rate unit bonuses of 15 percent or more are provided. If the proportion of affordable rental units is increased to 10 percent of the baseline total, density bonuses alone do not appear to completely offset the costs for the 50 percent AMI level. However, increasing the AMI level served to 80 percent and providing 20 percent or more density bonuses appears to create feasible projects.

For "urban core" rental projects in East County, a similar pattern is identified, although the overall profitability of the prototype project analyzed is substantially lower than for Seattle. As shown on the summary table, incorporating five percent affordable units, with market rate density bonuses of 20 percent or more, is workable, even for AMI levels of 50 percent. If 80 percent AMI levels are served, incorporation of five percent affordable units offset by a density bonus of 10 percent or more appears feasible. Increasing the amount of affordable units in East County, however, results in a finding that this approach is not workable for 50 percent AMI levels, and would require density bonuses of 20 percent or more to serve 80 percent AMI income levels.

In South County, the voluntary inclusionary unit/density bonus approach is not feasible for rental projects in South County because the baseline project analyses resulted in negative profit margins, meaning that without any affordable units, rental projects in many areas of South County face feasibility challenges.

For-Sale Project Findings

In cases of for-sale projects, various combinations of affordable unit incorporation and corresponding density bonuses also appear feasible throughout King County sub-regions. In Seattle, the prototype analysis indicates that incorporating five percent affordable for-sale units serving households at 80 percent AMI may be feasible if bonuses of 25 percent are provided, and specific project costs can be held to slightly below those assumed in the analysis. This approach, with a five percent affordable incorporation, is clearly feasible for all density combinations for projects including units designed to serve households at the 120 percent AMI level. Increasing the affordable component to 10 percent of baseline units, however, results in profit margins that are lower than the baseline level, indicating that a voluntary approach to incorporating affordable for-sale units in exchange for a density bonus may not be feasible.

In the East County "Core" prototype (60 units per acre), incorporation of five percent affordable units at 50 percent AMI and bonuses of 20 percent or more appears feasible; this approach also appears near-feasible even at lower density bonus levels. Incorporating five percent affordable units at higher income levels (80 percent and 120 percent AMI) also achieve "parity" with baseline profit margins. When the proportion of affordable units is increased to 10 percent, however, this approach achieves profit parity only at the 120 percent AMI level with 20 percent bonuses.

An East County Townhouse prototype was also tested, resulting in the finding that most combinations were not feasible; only near-feasibility was reached with five percent affordable units at 120 percent AMI.

In South County, the five percent affordable incorporation was feasible or very close to feasible for all income levels with all bonus combinations.

In summary, for-sale projects targeted at lower income households in Seattle and in East County townhouses face challenges using the voluntary method. These findings reflect input received from actual developers consulted while preparing this report, who framed the reduction in profit in the more profitable locations (e.g., Seattle) with the incorporation of affordable units as a "loss" to the project compared to the amount returned by developing the baseline market rate project.

Conclusions and Next Steps

It should be noted that the analyses conducted for this study carry a range of imprecision relative to specific real projects, and will also change over time, depending on the combined effect of land prices, rents/sale prices for units, construction and mortgage interest rates, etc. The analyses in this report has been prepared to illustrate how these types of programs can work, but each jurisdiction must fine-tune these findings to fit its own marketplace and developer needs.

Implementation of widespread voluntary programs of this nature, coupled with density bonuses, would allow for some of this variation to be demonstrated by individual developers. In other words, if the analysis indicates a near-even maintenance of "before" and "after" profitability, an actual developer could still opt to use the voluntary program based on his/her own specific project factors which may better accommodate the mix of assumptions in a manner favorable to affordable housing production.

The analysis also explored a parking requirement reduction as an enhancement to scenarios where density bonuses did not, by themselves, create sufficient profitability to incentivize projects. An example included in the report, for the East County Rental case with 10 percent of the units affordable to 50 percent AMI and a 10 percent market rate density bonus, shows that with a parking requirement reduction from 1.5 spaces per unit to 1.0 spaces per unit, the enhanced project almost matches original baseline profitability. The combinations of density bonuses and parking requirement reductions can have dramatic

financial impacts in areas where parking garages or other costly forms of structured parking are needed to fit the project within an urban site.

In order to encourage voluntary incentive program implementation throughout King County, the GMPC next plans to disseminate this report and the tools and information developed for it to local jurisdictions, and convene a regional forum on affordable housing incentives to encourage implementation of these programs at the local level. Local jurisdictions are encouraged to fine-tune these economic analyses and program parameters to fit local market and economic conditions.

Introduction

Study Purpose

This report profiles and analyzes the economic implications of housing incentive programs which can be implemented by local jurisdictions to encourage new affordable housing development. These include primarily local government programs which provide density bonuses in exchange for incorporating affordable units within market rate housing projects. This report also assesses the economic implications of other incentives, such as reductions in required parking, which can further be used in certain markets to encourage private developers to produce affordable housing.

This is a regional planning document for housing, and is intended to serve as a resource for local jurisdictions, the Growth Management Planning Council of King County, and housing organizations throughout King County. This document is part of a larger initiative, The Regional Housing Project, led by the Growth Management Planning Council of King County (GMPC). The purpose of the Regional Housing Project is to identify practices that will help jurisdictions achieve local and regional goals for housing. Based on earlier work prepared for The Regional Housing Project, the GMPC has requested this in-depth look at affordable housing incentive programs and their applicability to local King County jurisdictions.

Report Contents

This report begins with an overview of the regulatory and economic context of incentive programs for King County jurisdictions. Three example programs are then profiled, including King County's voluntary program. The report then focuses on an economic analysis of how incentive programs would work from the private developer's viewpoint, varied by subregion with King County to account for market and development cost differences. This report concludes with a series of "next steps" for the Growth Management Planning Council to consider regarding this concept.

Overview of Regulatory and Economic Context

Regulatory Context

Many jurisdictions around the U.S. have implemented some form of incentive-based affordable housing production programs. These range from mandatory inclusionary zoning, where market rate housing projects must include a percentage of units affordable to pre-determined lower household income levels or pay an "in-lieu" fee (often in exchange for additional market rate units in the form of a density bonus), to more voluntary programs where the private developer can choose to comply in exchange for a similar bonus incentive and/or other regulatory reductions in parking or impact fees. The following chapter profiles two programs, a relatively well-established inclusionary program in Montgomery County, MD, and a voluntary program in Pleasanton, CA.

In Washington State, interpretations of the state constitution and other land use laws have meant varying local approaches to implementing incentive-based programs. Mandatory programs are often considered to have problematic legal consequences if implemented jurisdiction-wide, based on legal reasoning derived from prohibitions on rent control along with various "taking" issues. However, several jurisdictions within King County and elsewhere have implemented mandatory programs that are geographically specific, such as in Urban Centers, or that otherwise effect compliance with Comprehensive Plan goals and policies for a specific area within a jurisdiction.

The focus of this report is on economic issues associated with incentive-based programs, and analyzes options for jurisdictions within King County. Legal issues associated with both voluntary and mandatory incentive programs are not addressed.

Economic Context

Density Bonus and Affordable Housing

The economic context of incentive programs to encourage affordable housing is based on the premise that private developers will include affordable units if they receive something of economic value in exchange for this action, but otherwise would not be "incentivized" to incorporate the affordable units.

For example, if a parcel of land is zoned to allow a maximum of five residential units, and a voluntary program is implemented, the concept is that incorporation of a unit at an affordable rent or sale price would decrease the developer's overall project profit, because development costs would rise to construct this affordable unit, but without compensating profit on it. The unit, depending on the relationship between its development cost and its rent or sale price level, could bring a small profit, break even, or even incur an absolute loss to the developer. However, if the incorporation of this affordable unit were offset by the ability to incorporate additional market rate units (i.e., density bonus), the additional profit on every market rate unit above the allowable five units originally zoned could offset

the incorporation of the affordable unit and its potential loss to the developer.

To illustrate this concept numerically, if a developer were to build five market rate units in this example, and the profit on each of these were $20,000, and the incorporation of one affordable unit meant eliminating profit on that unit, then the concept is to allow for one additional market rate unit above the original five allowed (density bonus). This permits the project to achieve "equilibrium". The project would end up with a total of six units built on a parcel zoned for five, with a 20 percent affordable unit mix (e.g. one affordable unit out of the five allowed under existing zoning), and a density bonus of 20 percent (one additional market rate unit).

In some jurisdictions around the county, incentive programs allow for a variation of paying an "in-lieu" fee, rather than actually constructing the affordable units within the project. This option is allowed, and sometimes encouraged, in order to provide the developer with the option of paying money rather than impacting the perceived marketability of the project by including mixed household incomes within it. The "in-lieu" fee is often set at a level necessary to serve as equity in an off-site affordable project on a per unit basis, not the entire development cost of that unit. This approach is followed because affordable housing developers can utilize the equity amount to leverage debt on the units, thereby minimizing the payments collected from the market rate developer, and maximizing the number of affordable units built elsewhere.

Key to this approach to encourage affordable housing production is the need for a strong residential real estate market, where a developer desires to obtain additional market rate unit entitlements and is confident that each additional unit will be marketable and contribute the expected profit to the project. In many strong residential markets, land costs also tend to rise – the option of providing affordable units in exchange for additional market rate units at zero additional land cost can therefore be especially attractive in these cases. Also important in this calculus from the developer's point of view is the goodwill that will accrue from following such a voluntary program; if the developer believes that requesting a density bonus will impact project approvals in any case, and/or that incorporating affordable units will cause greater neighborhood opposition to the project, then the developer is likely to opt for not following a voluntary program despite its potential economic offsets or benefits. Conversely, if a developer faces strong project opposition from affordable housing advocates or neighborhood residents with consensus around the need for more affordable housing, or if elected officials have taken the position that solving affordable housing needs through increased mixed income production is a viable direction, then this approach can serve to greatly expand the production and availability of affordable units in strong real estate markets. Interestingly, it is typically just such strong markets which tend to exacerbate the interest in affordable units to begin with (i.e., rents or sale prices are rising and concern exists for providing housing for all income levels), so this concept of "leveraging" the strong market to increase affordable production can serve to benefit multiple interests.

Reductions in Parking Requirements

Local jurisdictions around the U.S. have implemented tools other than density bonus programs to create incentives for affordable housing production. An approach which can work well in higher density or transit-oriented projects is to reduce the overall parking required per unit in exchange for the provision of affordable units within the project. This approach depends on the economic incentive of reducing relatively high development costs for parking (i.e. within garages or structured parking), and can lead to debates among developers and neighbors regarding the appropriate amount of parking to render the project marketable and/or mitigate surrounding street parking impacts. This report examines the economic implications of reduced parking requirements in the East County subregions.

Development Impact Fee Waivers/Reductions

In regions where development impact fees are relatively high as a proportion of total per-unit development costs, waiving or reducing such fees for affordable units can contribute to the overall equation. However, this approach is not workable in areas where legal restrictions require equal treatment of all housing developments to ensure that municipal costs of growth are equitably distributed to all those developments that incur increased impacts and costs.

Land Assembly Strategies

A final type of incentive program involves public agency sponsored land assembly and/or land value write-downs. Land assembly involves a public agency buying one or more parcels to create a larger, more developable parcel under single ownership, and then reselling or creating a long term ground lease with a private developer. Land write-downs would involve the added step of the public agency absorbing some of the cost of buying the land, so that when the land is resold to the private developer, the price is lower than market rate or the payments are deferred to minimize the cost to the private developer. Land write-downs can be a powerful incentive to developers who otherwise will not take the risk of developing a project due to the large up-front cost of purchasing land, which can be as much as 25 to 40 percent of total project costs.

These land assembly/land value write-down approaches can work well in situations where a community is otherwise built out, where the pattern of legal lot lines creates small parcels that constrain private development, or where land prices are high relative to unit rents or sale prices. Drawbacks to this approach include the need for expenditure of public resources (either by staff time or actual dollars), as well as restrictions on the use of public powers of condemnation. Nevertheless, land assembly/land write-downs can be a powerful tool for many local jurisdictions to encourage the development of affordable housing units.

Program Examples

This section describes example programs involving affordable housing and density bonuses. For each program, the history and rules are outlined, and a discussion of the success of each program's production of affordable units is presented.

Montgomery County, MD

Montgomery County, a suburban county adjacent to Washington, D.C., is an affluent, rapidly developing area facing continued upward home price pressures. In 1989, the median annual household income for the county was $54,089, substantially higher than King County's median of $36,179 and the U.S. median of $30,056.

Montgomery County's Moderately Priced Dwelling Unit (MPDU) program is the oldest and one of the most successful inclusionary zoning practices in the U.S. Passed in 1974, the law requires the following:

- Any development of one-half acre or smaller with 50 or more units must have between 12.5 percent and 15 percent affordable housing. In order to compensate the developer, a density bonus of up to 22 percent is allowed.
- Developers can apply to pay in-lieu fees to the Housing Initiative Fund (which provides assistance for affordable housing projects) or provide units at another location, but these exceptions are difficult to obtain.
- MPDUs must be built concurrently with market rate units.
- The Housing Opportunities Commission as well as recognized nonprofits are allowed to purchase up to one third of the affordable units developed, or five percent of the total for any given development.

Rules applied to program participants include:

- Participants are selected by lottery from a list of about 8,000 families.
- They are generally between 60 and 80 percent AMI.
- They can not have owned a residential property in the last five years.
- For-sale affordable units must maintain affordable prices for 10 years, and rental units for 20 years. If units are sold within those time periods, 50 percent of any profit is recouped by the program and reinvested in affordable housing.

Since the law was passed in 1974, more than 10,500 affordable units have been added to the existing housing stock, out of the more than 119,000 housing units developed. The program has also increased homeownership opportunities for minority groups; while about 27 percent of Montgomery County residents are minorities, over 50 percent of MPDU unit were purchased by minority households between 1988 and 1992.

From its inception, the intention of the MPDU program has been to increase the opportunity for home ownership in Montgomery County. As a result, the program has targeted a relatively narrow segment of the population (60 to 80 percent AMI). County officials believe that this level is low enough to justify a public program but high enough for households to afford the mortgage payments associated with these units. Due to this income and tenure focus, just under 28 percent of the units created through the MPDU program have been rental units (compared to an overall tenure mix of 28.7 percent of County households renting their unit in 1997).

Pleasanton, CA

As profiled in Appendix A, at least 23 California jurisdictions have enacted voluntary programs involving incorporation of affordable housing in exchange for density bonuses or other development incentives as one approach to creating additional affordable housing. These voluntary programs have produced at least 10,845 affordable units. Mandatory programs, present in at least an additional 53 California jurisdictions, have produced at least an additional 13,500 units[1].

In many of these jurisdictions, voluntary programs have achieved limited results due to a combination of market factors (leading to limited interest in selecting this option in exchange for a density bonus), or to poor design and implementation of the specific incentive policy. In areas of California with strong residential markets and escalating land values, however, voluntary programs have resulted in the production of a significant number of below market rate units. Among these programs, the City of Pleasanton's program stands out as particularly successful.

Pleasanton is a relatively affluent suburb of the Bay Area, located 40 miles east of San Francisco. As a result, its housing market is closely tied to the real estate situation in the Bay Area, which in the last decade has experienced unprecedented growth and extreme upward price pressures. The median home sale price in Pleasanton in 1999 was $411,700, an increase of more than 30 percent in just three years. According to the Association of Bay Area Governments (ABAG), Pleasanton's population has grown rapidly as well, increasing from 52,035 in 1990 to an estimated 67,800 in 2000.

The rapid growth and rising home prices have increased pressure on the City to provide affordable housing options for residents. Until recently, Pleasanton had a voluntary inclusionary housing program aimed at developing Below Market Rate (BMR) units. Since program inception in 1988, 845 affordable units have been created (including 396 units targeted to seniors). The city also accepted in-lieu fees of $2,088 per single-family unit and $933 per multifamily unit. In October 2000, the Pleasanton City Council voted to make inclusionary zoning mandatory for projects with more than fifteen units.

[1] Several known incentive programs involving including affordable units are not included in the data profiled by the author of the article summarized in Appendix A, leading to use of the term "at least" in this paragraph.

The voluntary program carried out to date was based on a project-by-project negotiation process, whereby the number of BMR units was negotiated in exchange for density bonuses through the planning review process. City planners could also offer developers faster project reviews by putting them first in line to get through Pleasanton's Growth Management Program. In general, BMR units were rented for 20 percent less than comparable market rate units located in the same complex. In September 2000, a city survey revealed a market rate rental range of $800 to $1,900 for one bedroom units and $950 to $2,400 for two bedroom units. As of March 2000, the maximum rent that could be charged for a BMR unit was $1,082 for a one bedroom apartment and $1,352 for a two bedroom unit. The actual rents of some BMR units were below the maximum allowed rent.

Residents of non-senior BMR units are generally households between 50 and 80 percent of Area Median Income (AMI). The income cap to qualify for an affordable unit in March 2000 was $37,850 for a one-person household, $43,250 for two people, $48,650 for three people, and $54,100 for a four person household. These income levels are adjusted annually.

King County, WA Programs

A significant number of King County jurisdictions have enacted incentive programs in order to encourage affordable housing production in line with local comprehensive plan goals. These include voluntary programs in Bellevue, Kent and Renton, as well as mandatory programs in Redmond and Federal Way.

King County has also enacted residential density incentives in order to achieve County Comprehensive Plan goals regarding affordable housing, open space protection, historic preservation, and energy conservation. For those residential projects providing a defined affordable housing public benefit, the County offers a menu of density bonuses depending on the number of affordable units provided, level of affordability, target population (senior or non-senior household), and the size of the site area. In general, the maximum density bonus allowed under the ordinance is 1.5 bonus units (e.g., 50 percent) for rental housing designed to serve households earning 50 percent or less AMI, for a maximum of 30 affordable units on sites of less than 5 acres. Senior projects are eligible for significantly higher density bonuses up to one bonus unit per benefit unit for assisted senior housing[2]. Despite these relatively generous King County program incentives, in the past year only three projects with below market-rate units have utilized the incentives. These projects included 35 ownership units affordable to households earning 80 percent or less of AMI. The average increase in density for these projects was 25 percent over the original permitted density. The County's program has also served as a model for similar incentive programs in Woodenville and other smaller King County jurisdictions.

[2] King County Code Sec. 21A.34.010, et sec.

Seattle Downtown Housing Bonus Program

Another example of a geographically specific density program is the well established approach used by the City of Seattle for its downtown. First enacted in 1985, the Seattle downtown housing bonus program encompasses three tiers of density incentives based on floor area ratios (FAR) as outlined in the Seattle downtown density schedule. FAR refers to the amount of building space compared to the amount of land underlying the building, so that a FAR of 4 is a building covering its entire site with four floors, or a taller building with setbacks so that the entire site is not covered by the building's footprint.

Assuming a base FAR of 4, downtown office developers have the following three options to increase permitted density:

- **First Tier**. By providing on-site mitigations such as additional open space or a child care center, FAR can increase within the range of 5 to 7.

- **Second Tier**. To boost FAR up to between 7 and 10, developers can provide the equivalent of $20 a square foot directly to a developer of below market-rate units in the downtown area. Office developers do not pay into a trust fund, but work directly with a nonprofit sponsor to provide equity for affordable housing. This program has resulted in four new and two renovated housing projects comprising 103 below market-rate units: 2 for very low income households; 50 for low income households; and 51 for households with moderate income. The program was revised in the past five years to apply only to low and very low income households, and currently the Seattle City Council is considering an additional revision that will allow office developers to pay an amount on the order of $22 a square foot directly into a housing trust fund.

- **Third Tier**. To boost FAR up to between 10 and 14, developers have the option of purchasing development rights from a low-income housing "sending"site in the downtown area. Priced at approximately $13 a square foot, these TDRs have resulted in approximately 416 below market rate units affordable to households earning 80 percent or less of AMI.

Summary

These example programs in Montgomery County, MD; Pleasanton, CA; and throughout King County, WA profile the range of specific arrangements that various local governments have used to encourage the production of affordable housing by using incentives designed to appeal to private, for-profit developers. These programs tend to work, and to produce affordable units, when market and economic conditions are aligned to create a strong demand for market rate housing (or, in the case of downtown Seattle, market rate commercial space). Another key ingredient for success is the appropriate mix of affordable units coupled with a density bonus, so that the net loss to a developer of incorporating an affordable unit can be almost or completely offset by the profit margin on each additional allowed market rate unit via the density bonus.

Jurisdictions around the U.S. have found that in some cases, the market and economic conditions that create this voluntary opportunity are more feasible when applied to market rate for-sale housing, which offers a sufficient, predictable profit margin to incentivize private developers, than for rental housing. Furthermore, these programs tend to be used most when the target affordability range is above 50 percent Area Median Income (AMI), which reduces the gap between revenue collected for the affordable unit and the development costs (i.e., the "loss" to the private developer for incorporating the affordable unit into the project). For market rate rental housing, which in some markets tends to have lower profit margins and/or higher development risk, the incorporation of affordable units is difficult to offset with additional market rate units, when each market rate unit has a limited profit margin.

Economic Analysis of Potential Incentives

To illustrate the financial implications of an affordable housing incentive program using density bonuses, as well as the implications of a reduction in parking requirements, this chapter presents a series of financial analyses of prototype projects in three subregions of King County: Seattle, the Eastside, and South County. The goal of this section is to illustrate the potential positive impact of allowing incentives such as density bonuses along with affordable housing provision on the "bottom line" return to the developer. The subregional analysis underscores how this works in markets with relatively high land values and rents/sale prices compared to markets with lower land values and lower rents/sale prices. The overall objective of the analysis is to develop a series of "baseline" project scenarios, add affordable units and market rate density bonus units, and test the resulting financial returns to assess if "baseline" profit margins can be maintained through these project changes.

Baseline Scenarios

Methodology

To analyze the impacts of density bonus/voluntary affordable housing incorporation into a market rate project, a series of "baseline" pro formas, along with variations in assumptions, were formulated. The baseline pro-formas illustrate a for-sale and a rental project in each of the three sub-regions, reflecting typical densities and market rate rents/sale prices. The results of this first step are included as Appendix B to this report.

In the Seattle case, both the rental and for-sale prototypes are based on the Neighborhood Commercial Three (NC3) zoning designation, areas where the City of Seattle has encouraged housing to promote mixed-use, pedestrian-oriented districts. For single-purpose residential uses in an urban center NC3 zone, the maximum residential density allowed for a 65-foot building is one unit per 400 square feet of gross lot area.

For East County, two for-sale projects are illustrated, an "urban core" example at 60 units per acre, and a "townhouse" example at 16 units per acre (second East County scenario added at the request of local developers who considered this townhouse for-sale product type reflective of current projects experiencing strong market success in many parts of the area). For the all of the for-sale scenarios, the pro forma describes a prototypical project, formulates development cost assumptions, and estimates sales revenues to the developer. This process illustrates the basic financial structure of a prototypical project before the affordable units and density bonuses are incorporated.

For rental projects, this analysis constructs baseline pro formas that again formulate a prototypical project for each subregion, generally at the same density and configuration as the for-sale version (except for South County, where it is assumed that a rental product would be marketable at a 25 units per acre, garden style stacked flat configuration, while the sale product would need to be less dense and offer townhouses at a lower density). To

estimate developer return, the development costs are subtracted from a capitalized Net Operating Income (NOI) figure, reflecting the value of rental property after lease-up. The capitalized NOI approach, a standard appraisal methodology, first estimates NOI based on gross rents, vacancies, and operating expenses; and then "capitalizes" NOI by dividing NOI by the "cap rate" to determine the stabilized property value of the completed project.

Summary of Baseline Results

As shown on Table B-1, the results of this baseline series of pro formas indicate that market rate rental projects tend to generally have lower financial returns (expressed as "profit as percent of total development cost") than for-sale projects. This is expected, and must be considered in light of the typical market conditions that also bring higher risk to condominium developers as prices and absorption fluctuate.

Table B-1 also indicates that market rate rental housing in South County, based on the assumptions used, is not generally feasible, which explains why a few developers may be able to take this risk; individual circumstances can affect this finding significantly, such as land purchased in prior years at a lower cost, construction costs that are negotiated downward via willing contractors, and/or presumptions on the developer's part that rents will rise by the time the project is built, generating greater return. This South County rental finding is also influenced by the assumed capitalization rate, which published data shows is higher in South County, reflecting a perceived greater risk on rental units. If a lower capitalization rate were used in the Appendix B scenario for this subregion, the project could become financially feasible.

Affordable Units and Offsetting Density Bonuses

Methodology

These pro formas test the implications of a voluntary affordable housing component coupled with a density bonus, allowing for an offset from the potential financial loss of including affordable units by including additional market rate units to generate additional profit.

These scenarios incorporate two options for the affordable component – a 5 percent mix and a 10 percent mix of total baseline units. Affordable units would be rented or sold at prices meeting the needs of households at various low income levels (expressed as calculated percentages of the HUD-defined Area Median Income). Appendix B includes one example of this pro forma for each subregion for each tenure assumption (rental and for-sale). Various density bonuses are also analyzed to determine if the resulting financial return from the combination of affordable units and increased profit from additional market rate units creates a feasible project. The density bonuses analyzed range from 10 to 25 percent of the baseline number of units. The results of this analysis are summarized in Appendix B-2 and B-3.

To determine the incentive's feasibility under various combinations of AMI and density bonus, the analysis assumes that a combination of affordable mix and density bonus is

"feasible" if the program allows maintenance of an overall project profit margin similar to the "baseline" profit margin.

It should be noted that the measure does not directly account for the mix of debt and equity (since it is using return on total development costs rather than return on equity). Return on equity was not chosen as the way to measure these analyses because in actual development projects, the amount of equity can vary greatly, depending on the arrangements of the various development partners and landowners; hence, the financial return on equity will also fluctuate substantially as a percentage measurement. Furthermore, it should be noted that the "equilibrium" approach, as measured by percent profit, is relatively conservative. Another measure could be maintenance of the actual dollar amount of profit, spread over more units, rather than a percent of profit.

These measures and the overall methodology were tested through a developer forum held in late fall, 2000. According to developers active in King County who reviewed the BAE analysis and findings, the basic approach matches their view of this issue. However, several developers noted that despite an "equilibrium" financial incentive, several real world considerations would influence the choice of using such a voluntary program. These factors include:

- Political reality regarding community acceptance of affordable housing units
- Marketing concerns regarding mixed income projects (although there is substantial debate over this issue, warranting further research). This issue was more prevalent as a concern in the case of for-sale products.
- Ability to achieve increased densities, while facing other on-the-ground constraints such as parcel configuration limiting actual density, community opposition to increased densities, and design/aesthetic considerations

Some developers noted that in order to make an affordable housing incentive program practical enough that they would voluntarily consider such an approach, the incentive should reward the developer above and beyond an equal financial return, through such additional mechanisms as faster entitlement processing, reduced parking requirements, reduced impact fees, or other actions that would save money or time.

Rental Findings

As shown in Appendix B, due to the combination of factors and assumptions, the rental scenarios indicate that incorporation of different mixes of affordable units with a corresponding level of density bonus for market rate units results in different profit outcomes in the different subregions. For rental projects, a mix of five percent affordable units offset by density bonuses of 20 percent or more appear to achieve the best outcomes, due to the baseline profit margins and the interplay between AMI rent levels and added profit from additional market rate units through density bonuses. For a 5-story, wood-frame Seattle rental prototype serving 50 percent AMI households, density bonuses of 20 percent or more appear to be feasible, and a density bonus of 10 to 15 percent may also be feasible for specific projects with slightly lower development costs than those assumed in

the analysis. If the proportion of rental units is increased to 10 percent of baseline in the Seattle rental scenario, density bonuses alone do not appear to completely offset the costs for the 50 percent AMI level. At the 80 percent AMI level of affordability, incorporating ten percent of baseline units to serve low-income Seattle households may, however, be feasible with accompanying market rate density bonuses of 20 percent or more.

For rental projects in East County, the baseline profit is lower than in the Seattle example, reflecting a different mix of density, land costs, construction costs, and rental rates. A similar pattern in terms of workable affordable housing/market rate density bonuses is indicated by the analysis for East County rental projects, as shown in Appendix B. Incorporating a five percent affordable component appears feasible if offset by at least a 20 percent density bonus for projects serving 50 AMI households, with lower market rate density bonuses approaching feasibility, depending on project-specific factors. Incorporating a five percent affordable component appears feasible with all ranges of density bonus for projects serving 80 percent AMI or above. Increasing the affordable component to 10 percent of baseline unit counts begins to appears workable for AMI levels of 80 percent or above if density bonuses are provided at 20 percent or more.

For South County, due to finding that market rate rental projects are barely feasible without any incorporation of affordable units, this approach to creating affordable housing through an incentive program is not workable (as reflected by negative profit numbers in Appendix B-1). However, it is important to note that due to the relationship between market rate rents and the federally-defined affordable income thresholds, households earning above 100 AMI are already served by market rate rents.

For-Sale Findings

In the case of for-sale projects, the analysis indicates that incorporating a five percent affordable component is also workable in some parts of King County. In Seattle, due to the relatively high baseline profit margin, it is difficult to achieve maintenance of profit margins after incorporation of an affordable component for households below 120 AMI. However, at 120 AMI, incorporating a five percent affordable for-sale component appears feasible, with density bonuses of as low as 10 percent. Increasing the amount of affordable units to 10 percent of baseline total does not appear to work in the Seattle example.

For East County Urban Core, the approach of a five percent affordable mix also appears to be workable, even for incomes at 50 percent AMI if density bonuses of 20 percent are provided. Increasing the mix of affordable to 10 percent of the baseline project, however, becomes less workable for lower income households in this prototype, with maintenance of profit margins occurring only for AMI levels of 120 percent and density bonuses of 20 percent or more.

As predicted by local developers, the East County townhouse prototype is not clearly workable under this voluntary incentive approach, with rough parity in profitability maintained only at the lowest levels of affordable unit mix and the highest levels of

household income (120 percent).

In South County, the incorporation of five percent affordable units into the project mix appears workable for all income levels, and may also be workable if the mix is increased to 10 percent, provided density bonuses are allowed in the 20 to 25 percent range. It should be noted that in South County, market rate for-sale prices are generally already affordable to households earning 120 percent AMI.

Thus, this approach can work well in for-sale situations, providing additional homeownership opportunities to substantial numbers of households at the same time as increasing overall housing production in partnership with private developers.

Summary of Affordable Units & Density Bonuses

In summary, these findings indicate that the approach of incorporating affordable units on a voluntary basis in exchange for a density bonus, allowing additional market rate units to offset the cost to developers, is a workable approach in many parts of King County. The approach faces a more difficult economic challenge for very low income household targets in the cases of rental projects in Seattle and East County, due to the relationships between economic factors. In addition, this approach generally works best when the amount of affordable units is kept at a five percent of baseline total, rather than increasing the amount to 10 percent of baseline.

It is important to note that the analyses conducted for this study carry a margin of imprecision relative to specific real projects, and the findings should be fine-tuned to match local market conditions and variations by specific project circumstances. Implementation of widespread voluntary programs of this nature, coupled with density bonuses, would allow for some of this variation to be demonstrated by individual developers. In other words, if the analysis indicates a near-feasible project at a certain combination of variables, an actual developer can still opt to use the voluntary program based on his/her own specific project factors which may better accommodate the mix of assumptions in a manner favorable to affordable housing production.

Parking Reduction Incentives

Reductions in required parking is an option that can also have significant cost reduction impacts to market rate developers, creating incentives for affordable housing production. This option can be used on a stand-alone basis, or in combination with the approach of incorporating affordable units and density bonuses as described above.

While this study does not address the capability of local areas to accommodate new housing with fewer numbers of parking spaces than have been traditionally provided or required, it should be noted that the recently completed *Seattle Comprehensive Neighborhood Parking Study* reports an average off street parking space utilization of 61 percent for urban centers, 42 percent for urban village neighborhoods, and 40 percent for hub urban village neighborhoods. Parking requirements for multi-family projects in

Seattle typically range from 1.1 to 1.25 spaces per residential unit[3]. However, recent market-rate projects in the downtown core area, however, have been providing 1.5 spaces per unit; for affordable projects the current ratio is 0.5 to 0.75. Comparison of the on-the-ground provisions for parking with the Neighborhood Parking Study suggest that there may be opportunities to reduce these typical amounts of parking.

Methodology

To test the impact of a parking requirement reduction as an enhancement to scenarios where density bonuses did not, by themselves, create sufficiently feasible projects, this study conducted an example analysis (see Appendix C for pro forma). The analysis was conducted for the East County Rental case with 10 percent of baseline units affordable to 50 percent AMI, a 10 percent market rate density bonus, and a parking ratio of 1.5 spaces per unit. Without any further incentive, this case resulted in a profit (as percent of development costs) of only 4.9 percent, insufficient to create a feasible project and a substantial drop from the baseline profit margin of 9.1 percent. However, when the parking requirement was reduced from 1.5 spaces per unit to 1.0 spaces per unit, the profit margin increased to 8.5 percent, approaching rough parity with the baseline profit margin.

Summary of Parking Reductions

This finding suggests that various combinations of affordable housing, density bonuses, and parking requirement reductions can work together to create projects with similar profit margins to full market rate "baseline" projects, while also serving very low income households. Key to this finding is the flexibility offered by implementing these combined approaches on a voluntary basis, when they fit the economic parameters of specific projects.

[3] In the Pine/Pike overlay district this requirement is reduced to 1.0 and in the Belltown and Denny Triangle neighborhoods there is no minimum parking requirement.

Conclusions & Next Steps

The analysis conducted for this study shows that incentive programs can contribute to the development of affordable housing within King County jurisdictions, with limited financial investment by public agencies. These programs utilize market forces to maximize opportunities for private sector housing production across a range of income levels.

To encourage implementation of voluntary incentive programs throughout King County's local jurisdictions, recommended next steps include:

- GMPC to direct staff to prepare a motion endorsing incentive recommendations for local consideration.
- GMPC to make all incentive tools and information developed by the consultants available to local jurisdictions.
- GMPC to convene a regional forum on affordable housing incentives bringing all interested parties together to review and implement at the local level.
- Local jurisdictions to fine-tune economic analysis and program incentives to fit local conditions.

Appendix A: Voluntary Programs in California

Table A-1: Voluntary Inclusionary Zoning Programs in California

City/County	Adopted/ Updated	Min. Project Size	% Units Required	Target Population	In Lieu Fee	# Units Produced	Terms of Affordability
Auburn	1993	5	10-15	L/M	Yes	NA	NA
Brisbane	1985/94	10	15	L/M	No	-	None
Burbank	1985	NA	NR	NA	No	128	NA
Carpenteria	1986	10	15-20	VL/L/M	Yes	20	None
Chowchilla	1992	NA	NA	NA	NA	-	NA
Chula Vista	1991	50	10	L/M	No	521	"Maximize"
Fairfax	1986/90	10	Density<6u/a:10 Density>6u/a:15	L/M	Yes	-	NA
Hesperia	1992	1	10	VL/L	Yes	-	30 years
Laguna Beach	1982/90	3	25	VL/L/M	Yes	310	10 years
Long Beach	1992	10	5-10	VL/L	Yes	NA	10-30 years
Merced County	1992	NA	NA	VL/L/M	No	131	None
Morgan Hill	1979/92	2	10-15	VL/L/M	Yes	287	30 years sale, 20 years rental
Orange County	1979/90	4	25	L/M	No	7,341	None SF Permanent MF
Placer County	1992	SFR: 100 MFR: 4	SF 10% L MF 50% L/M	VL/L/M	Yes	-	20 years
Pleasanton	1988/93	1	25	L/M	Yes	845	25 years
Richmond	1991/93	10	15%L; 10%VL	VL/L/M	Yes	-	10 years
Roseville	1988	4	10% Emphasis on rental	VL/L/M	Yes	910	Determined in development agreement
San Benito County	1988	NA	NA	NA	Yes	-	NA
San Buenaventura	1987	8	20	VL/L/M		-	30 years
San Clemente	1980/89	10	15	VL/L/M	Yes	352	20 years
San Luis Obispo	1993/94	50	<50 Units: 5% 50 units or more?	VL/L/M	No	-	50 years; Permanent if subsidies used
Santa Clara County	1979/94	10	10	L/M	NA	-	NA
Woodland	1993	10	10-25	VL/L	No	-	40 years
TOTAL UNITS PRODUCED VIA VOLUNTARY PROGRAMS						10,845	
TOTAL UNITS PRODUCED VIA MANDATORY PROGRAMS						13,500	

Source: Calavita, Nico and Grimes, Kenneth, Table 1, "Inclusionary Housing in California," APA Journal, Spring 1998.

Notes: VL: Incomes at or below 50% AMI
L: Incomes between 50 and 80% AMI
M: Incomes between 80 and 120% AMI

Appendix B: Baseline & Density Bonus Pro Formas

Table B-1: Summary of Baseline Assumptions and Financial Returns by Sub-Region

	Seattle		East County			South County	
	Rental	For-Sale	Rental	For Sale-Core	For-Sale-THS	Rental	For-Sale
Number of Units	56	56	60	60	16	25	12
Baseline Density (DU/Acre)	112	112	60	60	16	25	12
Product Type	Stacked Flats 5 Stories	Stacked Flats 5 Stories	Stacked Flats 3 Stories	Stacked Flats 3 Stories	Townhouses	Garden Apts. 3 Stories	Townhouses
Construction Type	Wood Frame	Wood Frame	Wood Frame	Wood Frame	Wood Frame	Wood Frame	Wood Frame
Type of Parking	Half Below Grade	Half Below Grade	Podium	Podium	Garage w/ Unit	Surface	Garage w/ Unit
Unit Type(s)	2 BR/1 BA	2 BR/2 BA	2 BR/1 BA	2 BR/2 BA	2 BR/2 BA	2 BR/1 BA	2 BR/2 BA
Unit Size (Sq. Ft.)	850	1,000	850	1,000	1,100	900	1,000
Market Rate Rent/Sale Price	$1,950	$260,000	$1,900	$240,000	$275,000	$1,000	$155,000
Land Costs/Sq. Ft.	$65	$65	$45	$45	$16	$2.6	$2.5
Hard Costs/Sq. Ft.	$100	$110	$100	$110	$110	$75	$85
Total Development Cost/Sq. Ft.	$175	$192	$177	$185	$195	$102	$122
Total Development Cost/Unit	$163,892	$211,372	$165,792	$203,054	$236,149	$100,653	$134,217
Profit as % of Development Cost	14.0%	16.9%	9.1%	12.3%	10.6%	-8.3%	9.6%

Source: BAE, 2000.

B-1: Affordable Sale Price Assumptions

	Household Income (a)	Sale Price	Down Payment (b)	Total Mortgage	Monthly Payment	Monthly Property Tax (c)	Monthly Insurance & HOA Dues (d)	Total Monthly PITI (e)
50 Percent AMI								
3 Person HH	$29,600	$70,679	$3,534	$67,145	$481.04	$64.79	$194.17	$740.00
60 Percent AMI								
3 Person HH	$35,532	$88,445	$4,422	$84,023	$601.95	$81.07	$205.28	$888.30
80 Percent AMI								
3 Person HH	$47,376	$123,916	$6,196	$117,720	$843.36	$113.59	$227.45	$1,184.40
100 Percent AMI								
3 Person HH	$65,800	$179,094	$8,955	$170,139	$1,218.90	$164.17	$261.93	$1,645.00
120 Percent AMI								
3 Person HH	$71,064	$194,859	$9,743	$185,116	$1,326.19	$178.62	$271.79	$1,776.60

Notes

(a) Calculated from HUD Area Median Income for Seattle CMSA.

(b) Mortgage terms:

Annual Interest Rate (Fixed)	7.75%
Term of mortgage (Years)	30
Percent of sale price as down payment	5.0%

(c) Initial property tax rate (Annual) 1.10%

(d) Annual insurance rate as percent of sale price 0.75%

(e) PITI = Principal, Interest, Taxes, and Insurance

(f) Percent of household income available for PITI 30.0%

(g) Homeowner's Dues $150

Table B-2: Summary of Incorporation of Affordable Units & Density Bonuses - Rental Projects

SEATTLE : Baseline Profit 14.0% of Development Costs (a)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI	**Maximum Income**	**Max. Rent**	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	12.4%	13.2%	14.0%	14.7%	9.1%	10.1%	11.0%	11.8%
Up to 80 percent	$47,376	$1,184	13.6%	14.4%	15.1%	15.8%	11.5%	12.4%	13.2%	14.0%
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

EAST COUNTY : Baseline Profit 9.1% of Development Costs (a)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI			*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	8.0%	9.0%	9.9%	10.8%	4.9%	6.0%	7.1%	8.0%
Up to 80 percent	$47,376	$1,184	9.2%	10.2%	11.0%	11.9%	7.3%	8.3%	9.3%	10.2%
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

SOUTH COUNTY : Baseline Profit Negative (b)

			Including 5 % Affordable Units				Including 10 % Affordable Units			
			% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI			*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50 percent	$29,600	$740	NA	NA	NA	NA	NA	NA	NA	NA
Up to 80 percent	$47,376	$1,184	NA	NA	NA	NA	NA	NA	NA	NA
Up to 120 percent	$71,064	$2,073	NA	NA	NA	NA	NA	NA	NA	NA

NOTES:

a) 120% Area Median Income exceeds assumed market rate rent for both Seattle and East County.

b) South County market rate rental is not feasibile; therefore, incorporating affordable units & density bonuses is not feasible. Note: market rate rent for South County (assumed $1,000 per unit) is below 80% AMI.

B-3: Summary of Affordable Units & Density Bonuses - For-Sale Projects

SEATTLE: 16.9% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
% AMI	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	11.7%	12.5%	13.2%	13.9%	6.5%	7.5%	8.4%	9.2%
Up to 80%	$124,000	13.9%	14.6%	15.2%	15.8%	8.7%	9.6%	10.4%	11.1%
Up to 120%	$195,000	16.7%	17.3%	17.8%	18.3%	11.5%	12.3%	13.0%	13.7%

EAST COUNTY : Core - 12.3% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	11.2%	12.1%	12.8%	13.5%	6.1%	7.1%	8.0%	8.9%
Up to 80%	$124,000	13.5%	14.3%	14.9%	15.6%	8.4%	9.3%	10.2%	10.9%
Up to 120%	$195,000	16.6%	17.2%	17.8%	18.3%	11.4%	12.2%	13.0%	13.7%

EAST COUNTY: Townhouse - 10.6% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	6.9%	7.1%	7.2%	7.3%	3.2%	3.5%	3.8%	4.0%
Up to 80%	$124,000	7.9%	8.0%	8.1%	8.2%	5.1%	5.4%	5.6%	5.8%
Up to 120%	$195,000	9.2%	9.2%	9.3%	9.3%	7.7%	7.8%	7.9%	8.1%

SOUTH COUNTY: 9.6% Baseline Profit

		Including 5% Affordable Units				Including 10% Affordable Units			
	Max. Affordable	% Profit Per Density Bonus				% Profit Per Density Bonus			
	Sale Price	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*	*Bonus 10%*	*Bonus 15%*	*Bonus 20%*	*Bonus 25%*
Up to 50%	$70,500	9.3%	9.6%	9.9%	10.2%	4.3%	4.8%	5.3%	5.7%
Up to 80%	$124,000	12.7%	12.9%	13.1%	13.2%	7.7%	8.1%	8.5%	8.8%
Up to 120%	$195,000	NA	NA	NA	NA	NA	NA	NA	NA

Table B-4: Baseline Seattle Rental Housing Scenario

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	56
Site Size (acres)	0.5
Market Rate Units	56
Below Market Rate Units	0
Density Bonus Units (Market Rate)	0
Total Units	56
Product Mix:	
2 BR/1 BA Market	56
Unit Size	850
Parking Ratio	1.00
Parking Spaces	56
Project Size (Sq. Ft.):	
Units	47,600
Common Area	4,760
Total Residential	52,360
Project Density (DU/AC)	112
FAR	2.4
Market Rate Rents:	
2 BR/1 BA (1)	$1,950
BMR Rent Rates - 50% AMI:	
2 BR/1 BA	na
BMR Rent Rates -80% AMI:	
2 BR/1 BA	na

Development Costs	
Land (2)	$1,415,700
Construction Costs (Sq. Ft.) (3)	$100
On and Off-Site Costs/Unit (4)	$3,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$20,000

Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Loan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,415,700
Unit Construction Cost	$5,236,000
On and Off-Site Cost	$168,000
Parking Costs	$1,120,000
Building Permits & Fees	$280,000
Other Soft Costs	$540,400
Property Taxes on Land/Improvements	$40,775
Finance Costs:	
Interest on Construction Loan	$266,179
Points on Construction Loan	$110,908
Total Development Costs	$9,177,962
Total Development Costs/Unit	$163,892

Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$1,310,400
Vacancy Rate	3.5%
Gross Scheduled Rent	$1,264,536
Operating Expenses	35%
Net Operating Income	$805,896
Capitalization Rate	7.7%
Potential Market Value	$10,466,182
Total Developer Profit	$1,288,220
Profit as Percent of Development Costs	14.0%
Profit Per Unit	$23,004

NOTES:

1) Reflects current rental rates for recently constructed properties in Seattle's Neighborhood Urban Centers/Villages.

2) Assumes land costs of $65 per Square Foot

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured "half down" parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$6,524,000
Loan to Value Ratio	85%
Amount of Loan	$5,545,400
Developer Equity	$3,632,562

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.

Table B-5: Seattle Rental Housing Scenario with 10% Affordable Units @ 50% AMI and 10% Bonus

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	56
Site Size (acres)	0.5
Market Rate Units	50
Below Market Rate Units (10% of baseline #)	6
Market Bonus Units (10% of baseline #)	6
Total Units	62
Product Mix:	
2 BR/1 BA Market	56
2 BR/1 BA Affordable	6
Unit Size (sq. ft.)	850
Parking Ratio	1.00
Parking Spaces	62
Project Size (Sq. Ft.):	
Units	52,360
Common Area	5,236
Total Residential	57,596
Project Density (DU/AC)	123
FAR	2.6
Market Rate Rents:	
2 BR/1 BA (1)	$1,950
BMR Rent Rates- 50% AMI:	
2 BR/1 BA @ 30% of 50% AMI	$740

Development Costs	
Land (2)	$1,415,700
Construction Costs (Sq. Ft.) (3)	$100
On and Off-Site Costs/Unit (4)	$3,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$20,000
Construction Financing Costs (9)	
Interest Rate	8.0%
Period of Initial Loan (months)	12
Initial Construction Loan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,415,700
Unit Construction Cost	$5,759,600
On and Off-Site Cost	$184,800
Parking Costs	$1,232,000
Building Permits & Fees	$308,000
Other Soft Costs	$594,440
Property Taxes on Land/Improvements	$44,853
Finance Costs:	
Interest on Construction Loan	$292,797
Points on Construction Loan	$121,999
Total Development Costs	$9,954,188
Total Development Costs/Unit	$161,594

Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$1,360,128
Vacancy Rate	3.5%
Gross Scheduled Rent	$1,312,524
Operating Expenses	35%
Net Operating Income	$836,479
Capitalization Rate	7.7%
Potential Market Value	$10,863,360
Developer Profit	$909,172
Profit as Percent of Total Development Costs	9.1%
Per Unit Market Rate Profit (@baseline land value)	$29,025

Calculation of Affordable Unit Development Costs	
Development Cost per Unit	$161,594
Estimated Value per Affordable Unit	$74,961
Net Cost to Developer Per Affordable Unit	$86,633
Total Affordable Unit Costs to Developer	$485,144

NOTES:

1) Reflects current rental rates for recently constructed properties in Seattle's Neighborhood Urban Centers/Villages.

2) Assumes land costs of $65 per Square Foot

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured "half down" parking. Costs from recent comparable projects. projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$7,176,400
Loan to Value Ratio	85%
Amount of Loan	$6,099,940
Developer Equity	$3,854,248

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.

Table B-6: Baseline East County Rental Housing Scenario

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	60
Site Size (acres)	1.0
Market Rate Units	60
Below Market Rate Units	0
Density Bonus Units (Market Rate)	0
Total Units	60
Product Mix:	
2 BR/1 BA Market	60
Unit Size	850
Parking Ratio	1.50
Parking Spaces	90
Project Size (Sq. Ft.):	
Units	51,000
Common Area	5,100
Total Residential	56,100
Project Density (DU/AC)	60
FAR	1.3
Market Rate Rents:	
2 BR/1 BA (1)	$1,900
BMR Rent Rates - 50% AMI:	
2 BR/1 BA	na
BMR Rent Rates - 80% AMI:	
2 BR/1 BA	na

Development Costs	
Land (2)	$1,950,000
Construction Costs (Sq. Ft.) (3)	$100
On and Off-Site Costs/Unit (4)	$3,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000

Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,950,000
Unit Construction Cost	$5,610,000
On and Off-Site Cost	$180,000
Parking Costs	$900,000
Building Permits & Fees	$300,000
Other Soft Costs	$579,000
Property Taxes on Land/Improvements	$41,813
Finance Costs:	
Interest on Construction Loan	$272,952
Points on Construction Loan	$113,730
Total Development Costs	$9,947,495
Total Development Costs/Unit	$165,792

Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$1,368,000
Vacancy Rate	3.5%
Gross Scheduled Rent	$1,320,120
Operating Expenses	35%
Net Operating Income	$841,320
Capitalization Rate	7.8%
Potential Market Value	$10,855,742
Total Developer Profit	$908,247
Profit as Percent of Total Development Costs	9.1%
Profit Per Unit	$15,137

NOTES:

1) Reflects current rental rates for recently constructed properties in Bellevue & Redmond.

2) Assumes land costs of $32,500 per unit.

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured podium parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$6,690,000
Loan to Value Ratio	85%
Amount of Loan	$5,686,500
Developer Equity	$4,260,995

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.

Table B-7: East County Rental Housing Scenario with 10% Affordable Units @ 50% AMI and 10% Bonus

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	60
Site Size (acres)	1.0
Market Rate Units	54
Affordable Units (10% of baseline #)	6
Market Bonus Units (10% of baseline #)	6
Total Units	66
Product Mix:	
2 BR/1 BA Market	60
2 BR/1 BA Affordable	6
Unit Size (sq. ft.)	850
Parking Ratio	1.50
Parking Spaces	99
Project Size (Sq. Ft.):	
Units	56,100
Common Area	5,610
Total Residential	61,710
Project Density (DU/AC)	66
FAR	1.4
Market Rate Rents:	
2 BR/1 BA (1)	$1,900
BMR Rent Rates - 50% AMI:	
2 BR/1 BA @ 30% of 50% AMI	$740

Development Costs	
Land (2)	$1,950,000
Construction Costs (Sq. Ft.) (3)	$100
On and Off-Site Costs/Unit (4)	$3,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,950,000
Unit Construction Cost	$6,171,000
On and Off-Site Cost	$198,000
Parking Costs	$990,000
Building Permits & Fees	$330,000
Other Soft Costs	$636,900
Property Taxes on Land/Improvements	$45,994
Finance Costs:	
Interest on Construction Loan	$300,247
Points on Construction Loan	$125,103
Total Development Costs	$10,747,244
Total Development Costs/Unit	$162,837
Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$1,421,280
Vacancy Rate	3.5%
Gross Scheduled Rent	$1,371,535
Operating Expenses	35%
Net Operating Income	$874,087
Capitalization Rate	7.8%
Potential Market Value	$11,278,545
Developer Profit	$531,301
Profit as Percent of Total Development Costs	4.9%
Per Unit Market Rate Profit (@baseline land value)	$21,696

Calculation of Affordable Unit Development Costs	
Development Cost per Unit	$162,837
Estimated Value per Affordable Unit	$74,477
Net Cost to Developer Per Affordable Unit	$88,360
Total Affordable Unit Costs to Developer	$530,158

NOTES:

1) Reflects current rental rates for recently constructed properties in Bellevue & Redmond.

2) Assumes land costs of $32,500 per unit.

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured podium parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$7,359,000
Loan to Value Ratio	85%
Amount of Loan	$6,255,150
Developer Equity	$4,492,094

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.

Table B-8: Baseline South County Rental Housing Scenario

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	25
Site Size (acres)	1.0
Market Rate Units	25
Below Market Rate Units	0
Density Bonus Units (Market Rate)	0
Total Units	25
Product Mix:	
2 BR/1 BA Market	25
Unit Size	900
Parking Ratio	1.50
Parking Spaces	37.5
Project Size (Sq. Ft.):	
Units	22,500
Common Area	2,250
Total Residential	24,750
Project Density (DU/AC)	25
FAR	0.6
Market Rate Rents:	
2 BR/1 BA (1)	$1,000
BMR Rent Rates - 50% AMI:	
2 BR/1 BA	na

Development Costs	
Land (2)	$112,500
Construction Costs (Sq. Ft.) (3)	$75
On and Off-Site Costs/Unit (4)	$2,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$1,500
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$112,500
Unit Construction Cost	$1,856,250
On and Off-Site Cost	$50,000
Parking Costs	$56,250
Building Permits & Fees	$125,000
Other Soft Costs	$190,625
Property Taxes on Land/Improvements	$12,266
Finance Costs:	
Interest on Construction Loan	$80,070
Points on Construction Loan	$33,363
Total Development Costs	$2,516,323
Total Development Costs/Unit	$100,653

Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$300,000
Vacancy Rate	3.5%
Gross Scheduled Rent	$289,500
Operating Expenses	35%
Net Operating Income	$184,500
Capitalization Rate	8.0%
Potential Market Value	$2,306,250
Total Developer Profit	-$210,073
Profit as Percent of Development Costs	-8.3%
Profit Per Unit	-$8,403

NOTES:

1) Reflects current rental rates for recently constructed properties in Federal Way.

2) Assumes land costs of $4,500 per unit or approximately $2.50 per sf.

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50% of property taxes levied over the marketing period.

8) Assumes surface parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$1,962,500
Loan to Value Ratio	85%
Amount of Loan	$1,668,125
Developer Equity	$848,198

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.

Table B-9: Baseline Seattle For-Sale Housing Scenario

Major Assumptions	
Characteristics of Project	
Base Project Size (Units)	56
Site Size (acres)	0.5
Market Rate Units	56
Below Market Rate Units	0
Market Bonus Units	0
Total Units	56
Product Mix:	
2 BR/2 BA Market	56
2 BR/2 BA Below Market	-
Unit Size	1,000
Parking Ratio	1.5
Parking Spaces	84
Project Size (Sq. Ft.):	
Units	56,000
Common Area	5,600
Total Residential	61,600
Project Density (DU/AC)	112
FAR	3
Market Rate Prices:	
2 BR/2 BA (1)	$260,000
BMR Prices (50% AMI):	
2 BR/2 BA	na
Development Costs	
Land (2)	$1,415,700
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$20,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Loan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis	
Development Pro-Forma	
Land	$1,415,700
Unit Construction Cost	$6,776,000
On and Off-Site Cost	$280,000
Parking Costs	$1,680,000
Building Permits & Fees	$420,000
Other Soft Costs	$705,600
Property Taxes on Land/Improvements	$54,600
Finance Costs:	
Interest on Construction Loan	$356,429
Points on Construction Loan	$148,512
Total Development Costs	$11,836,841
Total Development Costs/Unit	$211,372
Revenue From Sale of Units	
Gross Sales Revenue	$14,560,000
Net Sales Revenue (less 5% sales/marketing)	$13,832,000
Developer Profit (Net Rev - Dev Costs)	$1,995,159
Profit as Percent of Total Development Costs	16.9%
Profit Per Unit	$35,628

NOTES:

1) Assumes $260 square foot based on recently sold and currently selling projects in Seattle's urban centers/villages, 3/2000.

2) Assumes land costs of $65 per Square Foot

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured "half down" parking. Costs from recent comparable projects.

9) Construction financing costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$8,736,000
Loan to Value Ratio	85%
Amount of Loan	$7,425,600
Developer Equity	$4,411,241

Table B-10: Seattle For-Sale Housing Scenario With 10% Affordable Units @ 50% AMI & 10% Bonus

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	44
Site Size (acres)	0.5
Market Rate Units	40
Affordable Units (10% of baseline #)	4
Market Bonus Units (10% of baseline #)	4
Total Units	48
Product Mix:	
2 BR/2 BA Market	44
2 BR/2 BA Below Market	4
Unit Size	1000
Parking Ratio	1.50
Parking Spaces	73
Project Size (Sq. Ft.):	
Units	48,400
Common Area	4,840
Total Residential	53,240
Project Density (DU/AC)	88
FAR	2.4
Market Rate Prices:	
2 BR/2 BA (1)	$260,000
BMR Prices (50% AMI):	
2 BR/2 BA	$70,500

Development Costs	
Land (2)	$1,415,700
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$20,000
Construction Financing Costs (9)	
Interest Rate	8.0%
Period of Initial Loan (months)	12
Initial Construction Loan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,415,700
Unit Construction Cost	$5,856,400
On and Off-Site Cost	$242,000
Parking Costs	$1,452,000
Building Permits & Fees	$363,000
Other Soft Costs	$609,840
Property Taxes on Land/Improvements	$47,190
Finance Costs:	
Interest on Construction Loan	$362,419
Points on Construction Loan	$128,357
Total Development Costs	$10,476,906
Total Development Costs/Unit	$216,465
Revenue From Sale of Units	
Sales Revenue	$11,750,200
Net Sales Revenue (less 5% sales/marketing)	$11,162,690
Developer Profit (Net Rev - Dev Costs)	$685,784
Profit as Percent of Total Development Costs	6.5%
Per Unit Market Rate Profit (@baseline land value)	$14,169

Calculation of Affordable Unit Development Costs	
Net Development Cost per Affordable Unit	$216,465
Affordable Unit Sale Price	$70,500
Net Costs Per Affordable Unit	-$145,965
Total Affordable Unit Costs to Developer	-$642,246

NOTES:

1) Assumes $250 square foot based on recently sold and currently selling projects in Seattle's urban centers/villages, 3/2000.

2) Assumes land costs of $65 per Square Foot

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured "half down" parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$7,550,400
Loan to Value Ratio	85%
Amount of Loan	$6,417,840
Developer Equity	$4,059,066

Table B-11: Baseline East County For-Sale Housing Scenario - Urban Core

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	60
Site Size (acres)	1.0
Market Rate Units	60
Below Market Rate Units	0
Market Bonus Units	0
Total Units	60
Product Mix:	
2 BR/2 BA Market	60
2 BR/2 BA Below Market	0
Unit Size	1,000
Parking Ratio	1.50
Parking Spaces	90
Project Size (Sq. Ft.):	
Units	60,000
Common Area	6,000
Total Residential	66,000
Project Density (DU/AC)	60
FAR	1.5
Market Rate Prices:	
2 BR/2 BA (1)	$240,000
BMR Prices (50% AMI):	
2 BR/2 BA	na
Development Costs	
Land (2)	$1,950,000
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,950,000
Unit Construction Cost	$7,260,000
On and Off-Site Cost	$300,000
Parking Costs	$900,000
Building Permits & Fees	$450,000
Other Soft Costs	$756,000
Property Taxes on Land/Improvements	$52,875
Finance Costs:	
Interest on Construction Loan	$345,168
Points on Construction Loan	$169,200
Total Development Costs	$12,183,243
Total Development Costs/Unit	$203,054
Revenue From Sale of Units	
Sales Revenue	$14,400,000
Net Sales Revenue (less 5% sales/marketing)	$13,680,000
Developer Profit (Net Rev - Dev Costs)	$1,496,757
Profit as Percent of Total Development Costs	12.3%
Profit Per Unit	$24,946

NOTES:

1) Based on survey of currently selling condominium and townhouse projects in Bellevue and Redmond.

2) Assumes land costs of $32,500 per baseline unit.

3) Based on RS Means construction cost estimates for brick face exterior with concrete block back-up. Assumes interior finishes to condominium specifications.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured podium parking. Costs from recent comparable projects.

9) Construction financing costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$8,460,000
Loan to Value Ratio	85%
Amount of Loan	$7,191,000
Developer Equity	$4,992,243

Table B-12: East County For-Sale Scenario With 10% Affordable Units @ 50% AMI & 10% Bonus

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	60
Site Size (acres)	1.0
Market Rate Units	54
Below Market Rate Units (10% of baseline #)	6
Market Bonus Units (10% of baseline #)	6
Total Units	66
Product Mix:	
2 BR/2 BA Market	60
2 BR/2 BA Below Market	6
Unit Size	1,000
Parking Ratio	1.5
Parking Spaces	99
Project Size (Sq. Ft.):	
Units	66,000
Common Area	6,600
Total Residential	72,600
Project Density (DU/AC)	60
FAR	1.7
Market Rate Prices:	
2 BR/2 BA (1)	$240,000
BMR Prices (50% AMI)	
2 BR/2 BA	$70,500

Development Costs	
Land (2)	$1,950,000
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.3%
Cost/Parking Space (8)	$10,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,950,000
Unit Construction Cost	$7,986,000
On and Off-Site Cost	$330,000
Parking Costs	$990,000
Building Permits & Fees	$495,000
Other Soft Costs	$831,600
Property Taxes on Land/Improvements	$58,163
Finance Costs:	
Interest on Construction Loan	$446,688
Points on Construction Loan	$186,120
Total Development Costs	$13,273,571
Total Development Costs/Unit	$201,115
Revenue From Sale of Units	
Sales Revenue	$14,823,000
Net Sales Revenue (less 5% sales/marketing)	$14,081,850
Developer Profit (Net Rev - Dev Costs)	$808,280
Profit as Percent of Total Development Costs	6.1%
Per Unit Market Rate Profit (@baseline land value)	$38,885

Calculation of Affordable Unit Development Costs	
Net Development Cost per Affordable Unit	$201,115
Sale Price per Affordable Unit	$70,500
Net Costs Per Affordable Unit	-$130,615
Total Affordable Unit Costs to Developer	-$783,688

NOTES:

1) Based on survey of currently selling condominium and townhouse projects in Bellevue and Redmond.

2) Assumes land costs of $32,500 per Unit.

3) Based on RS Means per product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured podium parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$9,306,000
Loan to Value Ratio	85%
Amount of Loan	$7,910,100
Developer Equity	$5,363,471

Table B-13: East County For-Sale Housing Scenario Baseline - Townhouse

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	16
Site Size (acres)	1
Market Rate Units	16
Below Market Rate Units (10% of baseline #)	0
Market Bonus Units (10% of baseline #)	0
Total Units	16
Product Mix:	
2 BR/2 BA Market	16
2 BR/2 BA Below Market	-
Unit Size	1,100
Parking Ratio	2.0
Parking Spaces in garages of units	32
Project Size (Sq. Ft.):	
Units	17,600
Common Area	1,760
Total Residential	19,360
Project Density (DU/AC)	16
FAR	0.4
Market Rate Prices:	
2 BR/2 BA (1)	$275,000
BMR Prices (50% AMI)	
2 BR/2 BA	na

Development Costs	
Land (2)	$720,000
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$720,000
Unit Construction Cost	$2,129,600
On and Off-Site Cost	$80,000
Parking Costs	$320,000
Building Permits & Fees	$120,000
Other Soft Costs	$220,960
Property Taxes on Land/Improvements	$15,810
Finance Costs:	
Interest on Construction Loan	$121,421
Points on Construction Loan	$50,592
Total Development Costs	$3,778,383
Total Development Costs/Unit	$236,149
Revenue From Sale of Units	
Sales Revenue	$4,400,000
Net Sales Revenue (less 5% sales/marketing)	$4,180,000
Developer Profit (Net Rev - Dev Costs)	$401,617
Profit as Percent of Total Development Costs	10.6%
Per Unit Market Rate Profit (@baseline land value)	$38,851

Calculation of Affordable Unit Development Costs	
Net Development Cost per Affordable Unit	$236,149
Affordable Unit - Very Low Income	na
Estimated Value per Affordable Unit - Low Income	$0
Net Costs Per Affordable Unit	$236,149
Total Affordable Unit Costs to Developer	$0
Affordable Unit Costs as % of Total Development Costs	0.00%

NOTES:

1) Based on estimates from developer forum conducted as part of this study.

2) Assumes land costs of $45,000/unit.

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes small two car garage in each unit.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$2,529,600
Loan to Value Ratio	85%
Amount of Loan	$2,150,160
Developer Equity	$1,628,223

Table B-14: East County Townhouse Scenario with With 10% Affordable Units @ 50% AMI & 10% Density Bonu

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	16
Site Size (acres)	1
Market Rate Units	14
Below Market Rate Units (10% of baseline #)	2
Market Bonus Units (10% of baseline #)	2
Total Units	18
Product Mix:	
2 BR/2 BA Market	16
2 BR/2 BA Below Market	2
Unit Size	1,100
Parking Ratio	2
Parking Spaces in garages of units	35
Project Size (Sq. Ft.):	
Units	19,360
Common Area	1,936
Total Residential	21,296
Project Density (DU/AC)	16
FAR	0.5
Market Rate Prices:	
2 BR/2 BA (1)	$275,000
BMR Prices (50% AMI)	
2 BR/2 BA	$70,500

Development Costs	
Land (2)	$792,000
Construction Costs (Sq. Ft.) (3)	$110
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000
Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$792,000
Unit Construction Cost	$2,342,560
On and Off-Site Cost	$88,000
Parking Costs	$352,000
Building Permits & Fees	$132,000
Other Soft Costs	$243,056
Property Taxes on Land/Improvements	$17,391
Finance Costs:	
Interest on Construction Loan	$133,563
Points on Construction Loan	$55,651
Total Development Costs	$4,156,221
Total Development Costs/Unit	$236,149
Revenue From Sale of Units	
Sales Revenue	$4,512,800
Net Sales Revenue (less 5% sales/marketing)	$4,287,160
Developer Profit (Net Rev - Dev Costs)	$130,939
Profit as Percent of Total Development Costs	3.2%
Per Unit Market Rate Profit (@baseline land value)	$38,851

Calculation of Affordable Unit Development Costs	
Net Development Cost per Affordable Unit	$236,149
Sale Price for Affordable Unit	$70,500
Net Costs Per Affordable Unit	-$165,649
Total Affordable Unit Costs to Developer	-$265,038

NOTES:

1) Based on estimates from developer forum conducted as part of this study.

2) Assumes land costs of $45,000/unit.

3) Based on RS Means for product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes small two car garage in each unit.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$2,782,560
Loan to Value Ratio	85%
Amount of Loan	$2,365,176
Developer Equity	$1,791,045

Table B-15: Baseline South County For-Sale Housing Scenario

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	12
Site Size (acres)	1
Market Rate Units	12
Below Market Rate Units	0
Market Bonus Units	0
Total Units	12
Product Mix:	
2 BR/2 BA Market	12.00
2 BR/2 BA Below Market	-
Unit Size	1,000
Parking Ratio	1.50
Parking Spaces	18
Project Size (Sq. Ft.):	
Units	12,000
Common Area	1,200
Total Residential	13,200
Project Density (DU/AC)	12.00
FAR	0.30
Market Rate Prices:	
2 BR/2 BA (1)	$155,000
BMR Prices (50% AMI):	
2 BR/2 BA	na

Development Costs	
Land (2)	$114,000
Construction Costs (Sq. Ft.) (3)	$85
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10.0%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$1,500

Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$114,000
Unit Construction Cost	$1,122,000
On and Off-Site Cost	$60,000
Parking Costs	$27,000
Building Permits & Fees	$90,000
Other Soft Costs	$118,200
Property Taxes on Land/Improvements	$7,556
Finance Costs:	
Interest on Construction Loan	$49,327
Points on Construction Loan	$24,180
Total Development Costs	$1,612,263
Total Development Costs/Unit	$134,355

Revenue From Sale of Units	
Sales Revenue	$1,860,000
Net Sales Revenue (less 5% sales/marketing)	$1,767,000
Developer Profit (Net Rev - Dev Costs)	$154,737
Profit as Percent of Total Development Costs	9.6%
Profit Per Unit	$12,895

NOTES:

1) Based on survey of currently selling condominium and townhouse projects in Renton & Federal Way.

2) Assumes land costs of $9,500 per unit or about $2.60 per sf.

3) Based on RS Means construction cost estimates for attached townhouse style units. .

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes surface parking. . Costs from recent comparable projects.

9) Construction financing costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$1,209,000
Loan to Value Ratio	85%
Amount of Loan	$1,027,650
Developer Equity	$584,613

Table B-16: South County For-Sale Scenario With 10% Affordable Units @ 50% AMI & 10% Density Bonus

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	12
Site Size (acres)	1
Market Rate Units	11
Below Market Rate Units (10% of baseline #)	1
Market Bonus Units (10% of baseline #)	1
Total Units	13
Product Mix:	
2 BR/2 BA Market	12
2 BR/2 BA Below Market	1
Unit Size	1,000
Parking Ratio	1.50
Parking Spaces	20
Project Size (Sq. Ft.):	
Units	13,200
Common Area	1,320
Total Residential	14,520
Project Density (DU/AC)	12
FAR	0.3
Market Rate Prices:	
2 BR/2 BA (1)	$155,000
BMR Prices (50% AMI):	
2 BR/2 BA	$70,500

Development Costs	
Land (2)	$114,000
Construction Costs (Sq. Ft.) (3)	$85
On and Off-Site Costs/Unit (4)	$5,000
Permit & Fees/Unit (5)	$7,500
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$1,500

Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2.0%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$114,000
Unit Construction Cost	$1,234,200
On and Off-Site Cost	$66,000
Parking Costs	$29,700
Building Permits & Fees	$99,000
Other Soft Costs	$130,020
Property Taxes on Land/Improvements	$8,312
Finance Costs:	
Interest on Construction Loan	$63,835
Points on Construction Loan	$26,598
Total Development Costs	$1,771,665
Total Development Costs/Unit	$134,217

Revenue From Sale of Units	
Sales Revenue	$1,944,600
Net Sales Revenue (less 5% sales/marketing)	$1,847,370
Developer Profit (Net Rev - Dev Costs)	$75,705
Profit as Percent of Total Development Costs	4.3%
Per Unit Market Rate Profit (@baseline land value)	$20,783

Calculation of Affordable Unit Development Costs	
Net Development Cost per Affordable Unit	$134,217
Estimated Value per Affordable Unit	$70,500
Net Costs Per Affordable Unit	-$63,717
Total Affordable Unit Costs to Developer	-$76,460

NOTES:

1) Based on survey of currently selling condominium and townhouse projects in Renton & Federal Way. .

2) Assumes land costs of $9,500 per Unit.

3) Based on RS Means construction cost estimates for attached townhouse style units. .

4) Estimates based on review of recent multi-family projects in King County.

5) Based on survey conducted by BAE in August, 2000.

6) Estimate based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes surface parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$1,329,900
Loan to Value Ratio	85%
Amount of Loan	$1,130,415
Developer Equity	$641,250

Appendix C: Pro Forma with Parking Reductions

Table C-1: East County Rental Housing Scenario with 10% Affordable Units @ 50% AMI, 10% Bonus & Parking Reduction

Major Assumptions

Characteristics of Project	
Base Project Size (Units)	60
Site Size (acres)	1
Market Rate Units	54
Affordable Units (10% of baseline #)	6
Market Bonus Units (10% of baseline #)	6
Total Units	66
Product Mix:	
2 BR/1 BA Market	60
2 BR/1 BA Affordable	6
Unit Size (sq. ft.)	850
Parking Ratio	1.00
Parking Spaces	66
Project Size (Sq. Ft.):	
Units	56,100
Common Area	5,610
Total Residential	61,710
Project Density (DU/AC)	66
FAR	1.4
Market Rate Rents:	
2 BR/1 BA (1)	$1,900
BMR Rent Rates- Very Low Income:	
2 BR/1 BA @ 30% of 50% AMI	$740
BMR Rent Rates- Low Income:	
2 BR/1 BA	na

Development Costs	
Land (2)	$1,950,000
Construction Costs (Sq. Ft.) (3)	$100
On and Off-Site Costs/Unit (4)	$3,000
Permit & Fees/Unit (5)	$5,000
Other Soft Costs (6)	10%
Property Taxes on Land Improvements (7)	1.25%
Cost/Parking Space (8)	$10,000

Construction Financing Costs (9)	
Interest Rate	8%
Period of Initial Loan (months)	12
Initial Construction Lan Fee (points)	2%
Average Balance	60%

Pro Forma Analysis

Development Pro-Forma	
Land	$1,950,000
Unit Construction Cost	$6,171,000
On and Off-Site Cost	$198,000
Parking Costs	$660,000
Building Permits & Fees	$330,000
Other Soft Costs	$636,900
Property Taxes on Land/Improvements	$43,931
Finance Costs:	
Interest on Construction Loan	$286,783
Points on Construction Loan	$119,493
Total Development Costs	$10,396,107
Total Development Costs/Unit	$157,517

Value Stabilized Income (10)	
Gross Potential Rent (100% Occupancy)	$1,421,280
Vacancy Rate	3.5%
Gross Schdeulded Rent	$1,371,535
Operating Expenses	35%
Net Operating Income	$874,087
Capitalization Rate	7.8%
Potential Market Value	$11,278,545
Developer Profit	$882,437
Profit as Percent of Total Development Costs	8.5%
Per Unit Market Rate Profit (@baseline land value)	$27,016

Calculation of Affordable Unit Development Costs	
Development Cost per Unit	$157,517
Estimated Value per Affordable Unit - Very Low Income	$74,477
Estimated Value per Affordable Unit - Low Income	na
Net Cost to Developer Per Affordable Unit	$83,039
Total Affordable Unit Costs to Developer	$498,236
Affordable Unit Costs as Percent of Total Development Costs	4.79%

NOTES:

1) Reflects current rental rates for recently constructed properties in Bellevue & Redmond.

2) Assumes land costs of $32,500 per unit.

3) Based on RS Means per product type.

4) Estimates based on review of recent multi-family projects in King County.

5) Estimate based on survey conducted by BAE in August, 2000.

6) Estimates based on recent comparable King County projects.

7) 1.25 percent ad valorem tax on hard cost value of improvements. Assumes developer will pay an average of 50 % of property taxes levied over the marketing period.

8) Assumes structured podium parking. Costs from recent comparable projects.

9) Construction Financing Costs based on following assumptions:

Construction + On & Off Site Costs +Parking	$7,029,000
Loan to Value Ratio	85%
Amount of Loan	$5,974,650
Developer Equity	$4,421,457

10) Cap. Rate from Thomas Cain Apartment Value Trends; operating expenses from ULI Dollars & Cents of Mulitfamily Housing, 2000.